ANNUAL REPORT

CCA

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS

1937

FISCAL YEAR ENDED DECEMBER THIRTY-FIRST

MARCH 25, 1938

CONTAINER CORPORATION OF AMERICA

MILLS	Carthage, Indiana Chicago, Illinois Circleville, Ohio Kokomo, Indiana Marion, Indiana Philadelphia, Pennsylvania Wabash, Indiana (leased)
FACTORIES	Anderson, Indiana Chicago, Illinois Cincinnati, Ohio Natick, Massachusetts Philadelphia, Pennsylvania
BRANCH AND SALES OFFICES	Anderson, Indiana Baltimore, Maryland Chicago, Illinois Cincinnati, Ohio Cleveland, Ohio Detroit, Michigan Indianapolis, Indiana Louisville, Kentucky Minneapolis, Minnesota Natick, Massachusetts New York, New York Peoria, Illinois Philadelphia, Pennsylvania Pittsburgh, Pennsylvania Rochester, New York Wabash, Indiana
OPERATING SUBSIDIARIES	Chicago Mill Paper Stock Company Pioneer Paper Stock Company Plants (all leased) located at Chicago, Ill., Kalamazoo, Mich., Philadelphia, Pa. Kraft Corporation of America Fernandina, Florida The United Paper Box Mfg. Co. Cleveland, Ohio
AFFILIATED COMPANIES	Sefton Fibre Can Company, St. Louis, Mo. The Falls Paper Box Company, Cuyahoga Falls, Ohio

111 WEST WASHINGTON STREET, CHICAGO

DIRECTORS	William R. Basset, New York, New York J. J. Brossard, Chicago, Illinois Henry B. Clark, Chicago, Illinois Wesley M. Dixon, Chicago, Illinois John L. Dole, Chicago, Illinois George deB. Greene, New York, New York William P. Jeffery, New York, New York Walter P. Paepcke, Chicago, Illinois J. V. Spachner, Chicago, Illinois
EXECUTIVE COMMITTEE	William R. Basset William P. Jeffery Walter P. Paepcke
OFFICERS	President, Walter P. Paepcke Vice President, J. J. Brossard Vice President, Wesley M. Dixon Treasurer—Comptroller, H. C. Baumgartner Secretary, Earl A. Wagonseller Assistant Treasurer, Christ Madsen Assistant Secretary, L. A. Combs
TRANSFER AGENTS	Container Corporation of America, Chicago, Illinois City Bank Farmers Trust Company, New York, New York
REGISTRARS	Continental Illinois National Bank and Trust Company, Chicago, Illinois The Chase National Bank of the City of New York, New York

ANNUAL REPORT

Stock room in the Ogden plant seen from the great electric crane. As the one to five-ton rolls come from the mill they are placed in storage here. When the time comes for fabricating into solid fibre and corrugated board for shipping containers, they are gently and quickly lifted and carried to the production line.

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS, MARCH 25, 1938

TO THE STOCKHOLDERS OF CONTAINER CORPORATION OF AMERICA

We submit herewith the Annual Report of Container Corporation of America for the year ended December 31, 1937, including the Auditors' Certificate, a Consolidated Balance Sheet, a Summary of Consolidated Profit and Loss and Surplus Accounts and a tabulation of Funded Debt. In addition, there are included comparative statements as well as comments and illustrations which we believe will give the shareholders a clearer and more complete picture of the present condition and recent operating results of the Corporation.

FINANCIAL REVIEW

PROFIT AND LOSS. The consolidated net profit for 1937 was $1,784,105 compared with $1,286,942 for 1936. In each case earnings are net after administrative charges, interest and provisions for depreciation, bad and doubtful accounts, local and Federal taxes and surtaxes.

These earnings represent $2.28 a share on each of the 781,253 outstanding shares of capital stock. Quarterly per share earnings were:

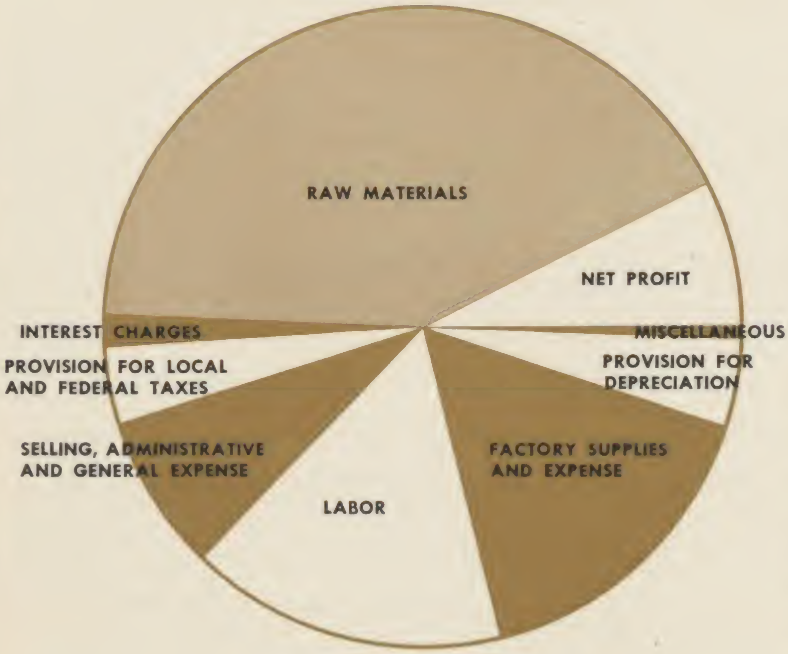
1st Quarter	$ .72
2nd Quarter	.96
3rd Quarter	.55
4th Quarter (including year end adjustments)	.05
Full Year	$2.28

A comparative summary of operating results for the last three years follows:

	Year Ended December 31st 1937	1936	1935
Consolidated net sales (including brokerage sales of subsidiary)	$25,268,327	$22,525,268	$20,181,777
Cost of sales (exclusive of depreciation)	19,201,297	17,466,001	15,356,939
Gross profit (exclusive of depreciation)	$ 6,067,030	$ 5,059,267	$ 4,824,838
Provision for depreciation	1,216,800	1,172,734	1,152,590
Gross profit from operations	$ 4,850,230	$ 3,886,533	$ 3,672,248
Selling, administrative and general expenses (exclusive of bad debts)	$ 2,027,711	$ 1,791,599	$ 1,575,614
Net profit from operations (exclusive of bad debts)	$ 2,822,519	$ 2,094,934	$ 2,096,634
Other charges:			
Provision for bad debts, less recoveries	$ 120,871	$ 9,742	$ 35,153
Non-operating rental expense, etc	96,305	114,922	122,818
Flood loss at Cincinnati plant	60,393	—	—
Loss on capital assets retired	—	86,701	107,512
	$ 277,569	$ 211,365	$ 265,483
	$ 2,544,950	$ 1,883,569	$ 1,831,151
Other income:			
Purchase discounts, interest earned, etc	$ 105,178	$ 92,719	$ 92,704
Rental income	36,714	29,592	29,170
Net profit on sales or retirements of capital assets	63,907	—	—
	$ 205,799	$ 122,311	$ 121,874
Net profit before interest and Federal income taxes	$ 2,750,749	$ 2,005,880	$ 1,953,025
Interest charges, etc.:			
Interest on first mortgage bonds	$ 175,372	$ 194,958	$ 208,426
Interest on debentures	199,115	211,772	213,482
Amortization of bond discount and expense	39,227	42,769	43,012
Other interest, etc	24,930	14,439	32,596
	$ 438,644	$ 463,938	$ 497,516
Net profit before Federal income taxes	$ 2,312,105	$ 1,541,942	$ 1,455,509
Provision for Federal income taxes:			
Normal and excess profits taxes	$ 389,100	$ 230,500	$ 217,500
Surtax on undistributed profits	138,900	24,500	—
	$ 528,000	$ 255,000	$ 217,500
Net profit carried to earned surplus	$ 1,784,105	$ 1,286,942	$ 1,238,009

Depreciation charge against operations was $1,216,800. This was the gross amount added to the depreciation reserve account. Deducted from this account was $1,192,048 of accumulated depreciation on those assets which were sold or retired during the year. Therefore, the difference between $1,216,800 and $1,192,048, or $24,752, was the net increase to reserve for depreciation.

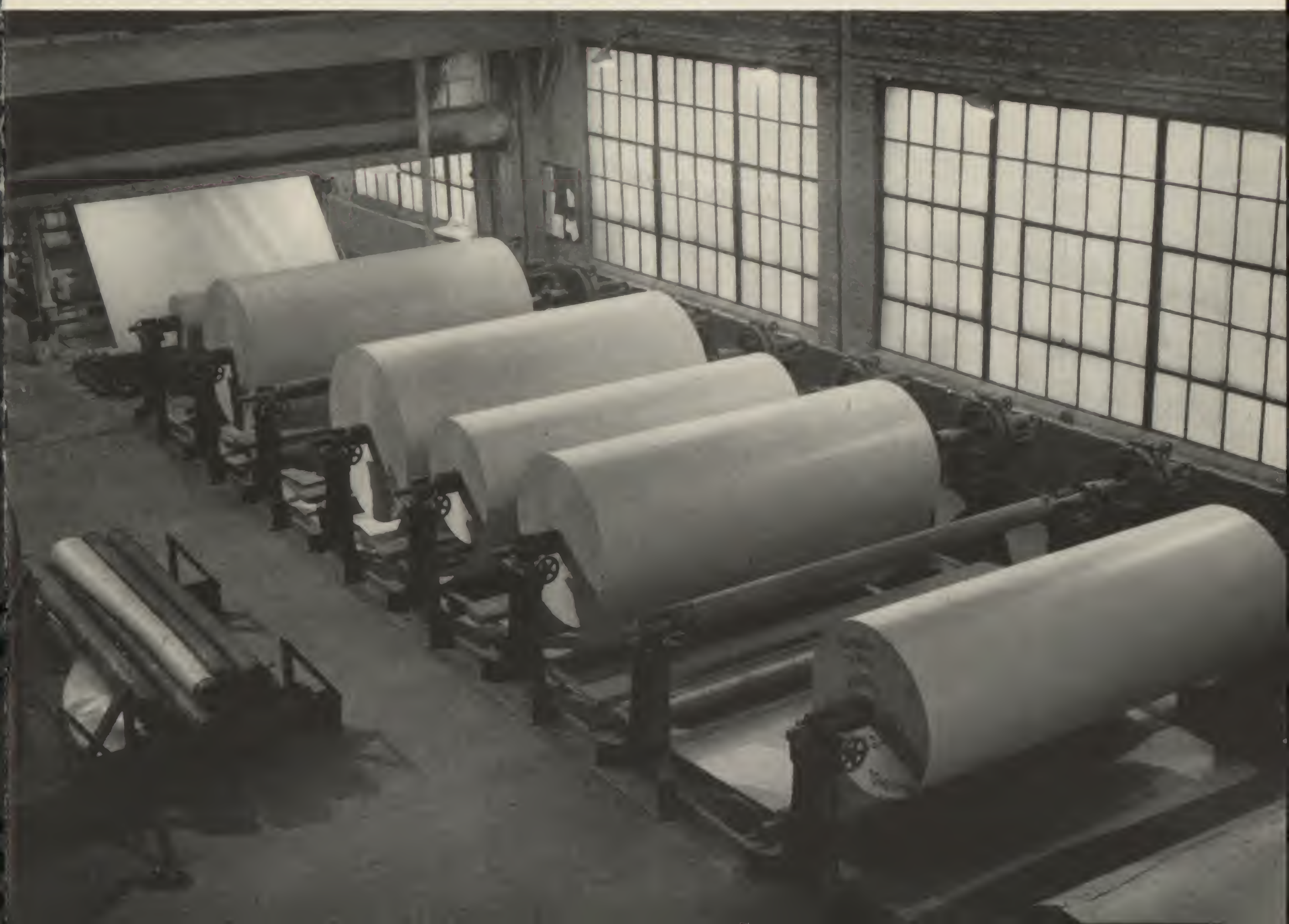
Profit on fixed assets, sold or retired during the year, amounted to $63,907 and was credited to current Profit and Loss. Further comment on these sales and retirements is made under the caption of Working Capital.



Maintenance and repair of machinery, buildings and equipment charged against Profit and Loss amounted to $811,771.

This diagram and table following indicate the relative proportion of net sales accounted for by profit, labor, administrative expense, raw materials, factory supplies and expense, etc., compared with the previous year. It is interesting to note that raw materials and taxes constituted a proportionately higher amount of total sales. Taxes, in fact, reached the highest peak in your Corporation's history and were equivalent to $1.31 a share on the outstanding capital stock.

Container chip and linerboard rolls are delivered to the solid fibre pasting machine where 2, 3, 4 or 5 may be simultaneously unwound and glued together (laminated) to form the combined board.

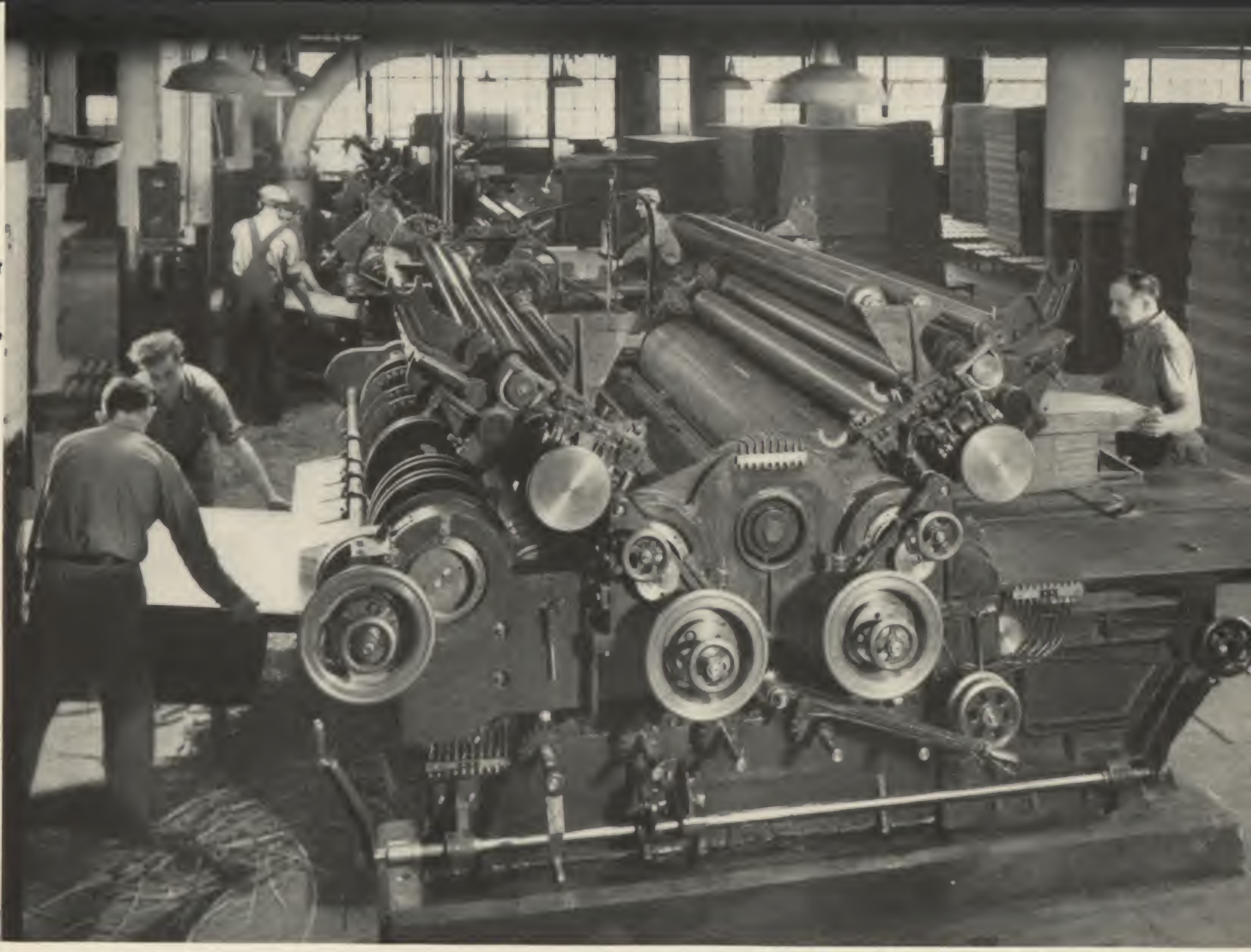


	1937		1936	
Net sales	$25,268,327	100.00%	$22,525,268	100.00%
Raw materials	$10,599,504	41.95%	$ 8,893,589	39.48%
Factory supplies and expense	4,233,740	16.75	4,479,575	19.89
Labor	3,981,257	15.76	3,811,608	16.92
Selling, administrative and general expense	1,928,000	7.63	1,754,758	7.79
Net profit	1,784,105	7.06	1,286,942	5.71
Provision for depreciation	1,216,800	4 82	1,172,734	5.21
Provision for local and Federal taxes	1,022,245	4.05	578,181	2.57
Interest charges	399,417	1.58	421,169	1.87
Miscellaneous deductions	103,259	.40	126,712	.56

WORKING CAPITAL. Comparisons of Working Capital for the last two years are set out in the following:

	1937	1936	Increase or Decrease (d)
CURRENT ASSETS:			
Cash in banks and on hand	$1,650,344	$1,147,361	$502,983
Customer's accounts and notes receivable, less reserves	955,353	1,614,733	659,380(d)
Note receivable (secured by property sold)—due 1938	125,000	—	125,000
Miscellaneous receivables	52,763	10,898	41,865
Inventories	3,143,426	2,900,739	242,687
Total Current Assets	$5,926,886	$5,673,731	$253,155
CURRENT LIABILITIES:			
Accounts payable	$ 363,451	$1,092,693	$729,242(d)
Contracts payable for construction in progress	—	212,310	212,310(d)
Accrued interest	22,849	24,669	1,820(d)
Accrued wages	57,965	57,007	958
Accrued taxes	325,983	301,959	24,024
Provision for Federal taxes	528,000	255,000	273,000
Sundry accruals	27,479	32,000	4,521(d)
Sinking-fund payments due within year	115,000	154,000	39,000(d)
Total Current Liabilities	$1,440,727	$2,129,638	$688,911(d)
Net Working Capital	$4,486,159	$3,544,093	$942,066
Current Ratio	4.11 to 1	2.66 to 1	

The Working Capital as of December 31, 1937 of $4,486,159 was the largest your Corporation has ever had. In view of present unsatisfactory and uncertain business conditions, the substantial cash balance is gratifying. You will note that cash on hand was in excess of all current liabilities. Because of the sharp fall-off in business, particularly during the last quarter of the year, receivables were substantially lower than a year ago. Similarly, the falling-off in sales left your Corporation with higher inventories than at the end of the previous fiscal period; however, at the highest point in 1937, inventories had reached a peak of $4,068,348 and, therefore, a major reduction had been accomplished by the year end. Again, because of slow business, payables were substantially lower. Tax reserves were the highest ever recorded. Because of the bonds and debentures in the Corporation's treasury, there was a liability of only $115,000 for all sinking fund requirements for the next twelve months.



Battery of printer-slotters at the Ogden plant. As these machines print the *corrugated* shipping cases in two colors, they also make the vertical scores, trim the sheet and cut the slots that produce the top and bottom closing flaps.

During 1937, capital improvements, exclusive of the new Fernandina pulp mill, amounted to $635,728. The total expended for the practical completion of the new mill at Fernandina aggregated $2,970,890 including real estate and twenty-five houses for employees; of this amount, $66,144 had been spent in 1936. There was a further reduction of funded debt in the amount of $508,500 (not including reduction of $39,000 in current maturities). Dividends of $1.20 a share on the outstanding capital stock amounted to $860,876; it will be remembered that during the first half of the year, there were outstanding 653,540 shares of capital stock and by the second half of the year 781,253 shares. The receipts from stock subscriptions by shareholders amounted to $2,937,399. Approximately 98 per cent of the additional shares offered were subscribed for without underwriting. The total cost including S.E.C. registration, legal, auditing, clerical, printing and mailing expenses in connection with the issuance of the additional shares totaled $23,385 or less than one per cent of the gross proceeds.

As the country's largest producer of paperboard products Container Corporation of America serves a great number of nationally known firms. This group of corrugated and solid fibre shipping cases is indicative not only of the variety of commodities packed in paperboard, but also of the variety in sizes required. The Johns-Manville case in the rear row is three feet high.

During the year, the two machine paper mill of your Corporation at Cincinnati, Ohio, was sold. The sale included mill buildings, machinery and equipment, together with the real estate occupied by these assets. Your Company retained the real estate, buildings, machinery and equipment used in box shop operations as well as the real estate, buildings and equipment of its local office. The sales price was $1,500,000 of which $125,000 was received as an initial down payment. Your Company took back notes maturing at the rate of $125,000 every six months, bearing 4 per cent interest and secured by a first mortgage on the property conveyed. Under the caption of "Other Receivables and Investments," $1,250,000 of these notes are included, while the remaining $125,000 of notes maturing within the year are shown under Current Assets.

The real estate and buildings of the one machine paper mill known as the Taylor Street Plant, Chicago, was sold for $58,500 cash; your Corporation retained machinery and equipment of a movable nature, with the exception of the boilers, and these assets were removed from the property before title was conveyed to the purchaser.

Miscellaneous machinery and equipment was also disposed of during the year by sale, retirement and fire loss in the net amount of $310,771.

As a net result of these three groups of transactions, net profit over and above book value in the amount of $63,907 resulted, which was added to current operating profit for the year as previously mentioned.

Application of funds statement, which sets forth the source of funds and their disposition, follows:

Funds provided from the following sources:			
Proceeds from sale of capital stock through exercise of stock purchase warrants			$2,937,399
Profit for year		$1,784,105	
Add expense items not involving cash—			
Provision for depreciation	$1,216,800		
Amortization of bond discount and expense	39,227		
Net increase in reserve for contingencies	15,000		
	$1,271,027		
Deduct—			
Profit on property sold or retired	63,907	1,207,120	2,991,225
Sale of property			1,608,256
Net decrease in deferred charges other than bond discount and expense			13,836
			$7,550,716
Which were expended or accounted for as follows:			
Net increase in working capital			$ 942,066
Net increase in other receivables and investments			1,698,800
Company's own bonds and debentures purchased and called		$ 547,500	
Deduct—decrease in current maturities		39,000	508,500
Dividends paid			860,876
Additions to plant and equipment			3,540,474
			$7,550,716

Your Corporation acquired as of June 1937 nine acres of land and two hundred twenty-two thousand square feet of buildings situated contiguous to and east of your Company's property at Manayunk (Philadelphia), Pa., formerly owned by the Dill & Collins Company, for a cash consideration of $25,334. In the opinion of your Directors and management, this property is of value as it provides additional storage and potential manufacturing space for your Corporation's operations at its Philadelphia plant.

FUNDED OBLIGATIONS. As above mentioned, the funded debt was reduced by $508,500. At the year-end, your Corporation had on hand a par value of first mortgage bonds of $135,000; sinking fund requirements during the next twelve months amount to $250,000 and the difference between this amount and the bonds on hand is $115,000 which appears as a current liability on the balance sheet. As of December 31, 1937, there were $271,000 of debenture bonds in the treasury. Inasmuch as sinking fund requirements for each year are $200,000, there are sufficient debentures in the treasury to take care of all of this year's needs and in addition, $71,000 toward the sinking fund requirements of 1939. As usual, all interest payments were made when due and sinking fund requirements were met in accordance with provisions of the trust indentures. Funded debt position compared with that of a year ago is as follows:

	Dec. 31, 1937	Dec. 31, 1936	Increase or Decrease(d)
First Mortgage Sinking Fund 6% Bonds due June 15, 1946....	$2,758,000	$3,034,500	$276,500(d)
Fifteen Year 5% Debentures due June 1, 1943...............	3,829,000	4,100,000	271,000(d)
Total outstanding....................................	$6,587,000	$7,134,500	$547,500(d)
Less sinking fund requirements in excess of bonds in treasury:			
First Mortgage Sinking Fund 6% Bonds due June 15, 1946..	$ 115,000	$ 154,000	$ 39,000(d)
Total funded debt....................................	$6,472,000	$6,980,500	$508,500(d)

CAPITALIZATION. Through the exercise of subscription rights, as before mentioned, outstanding capital stock was increased during the year by 127,713 shares. These were sold to stockholders of record on June 3rd at $23.00 per share. The difference between the $20.00 par value of the stock and the $23.00 received amounted to $383,139 and is set forth on the balance sheet as capital surplus.

SURPLUS. Other than this addition to capital surplus, no other extraordinary surplus adjustments occurred during the year. The year's profit of $1,784,105 was added to surplus and dividend payments of $860,876 were charged against surplus; there were four quarterly dividend payments of 30c each per share paid in February, May, August and November. Earned surplus now stands at $1,940,991.

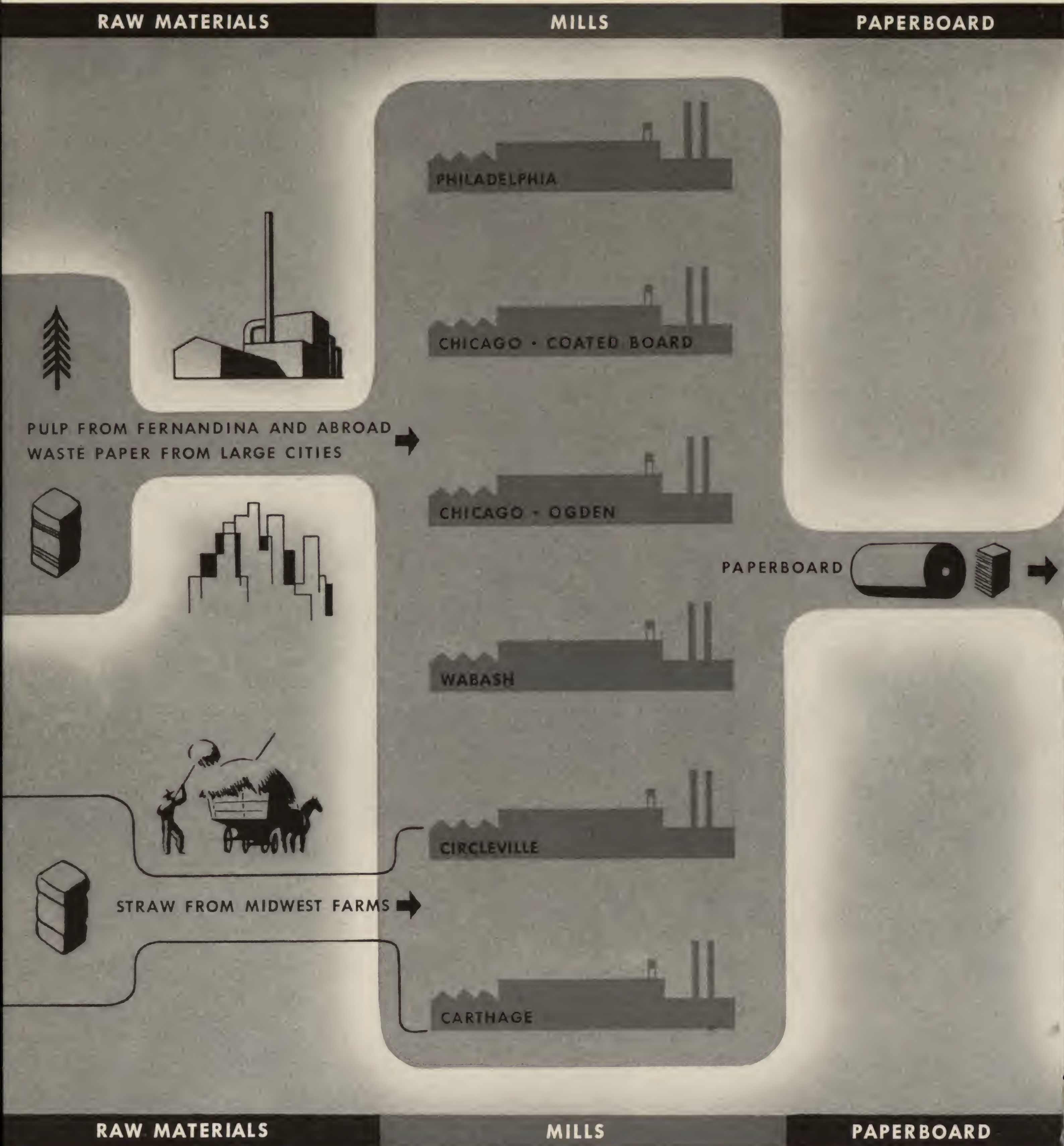
OPERATIONS

The following table indicates the number of tons produced in the mills as well as tons of finished product shipped from mills and box factories, other than inter-company shipments. The mills of your Corporation produce paperboard of which approximately one-half is fabricated into containers and folding boxes by your Corporation's box factories;

Two groups of colorful folding cartons photographed in the reception and display room at 111 West Washington Street, Chicago. Foods and beverages predominate on the right. On the left are soaps, cosmetics, auto accessories, stationery supplies, paints, sporting goods, etc. Folding cartons are now manufactured in Chicago, Cleveland and Philadelphia.

	Tons Produced in Mills	Tons Finished Product Shipped
1932	252,464	281,423
1933	299,346	320,961
1934	300,424	312,830
1935	373,399	382,381
1936	428,627	441,086
1937	391,270	390,496

while the other half is sold in the form of board to other fabricators. On the other hand, certain grades of paperboard used in the fabrication of your Corporation's containers and cartons are of a specialty nature not manufactured in your own mills but rather purchased from others. For this reason, there is a difference between "Tons Produced in Mills" and "Tons Finished Product Shipped."



SOURCES AND FLOW OF PRIMARY MATERIALS THROUGH MILLS

FACTORIES	PRODUCTS	USES

FACTORIES

- CHICAGO
- PHILADELPHIA
- CINCINNATI
- ANDERSON
- ST. LOUIS
- CLEVELAND
- NATICK
- OTHER PAPERBOARD CONVERTERS

PRODUCTS

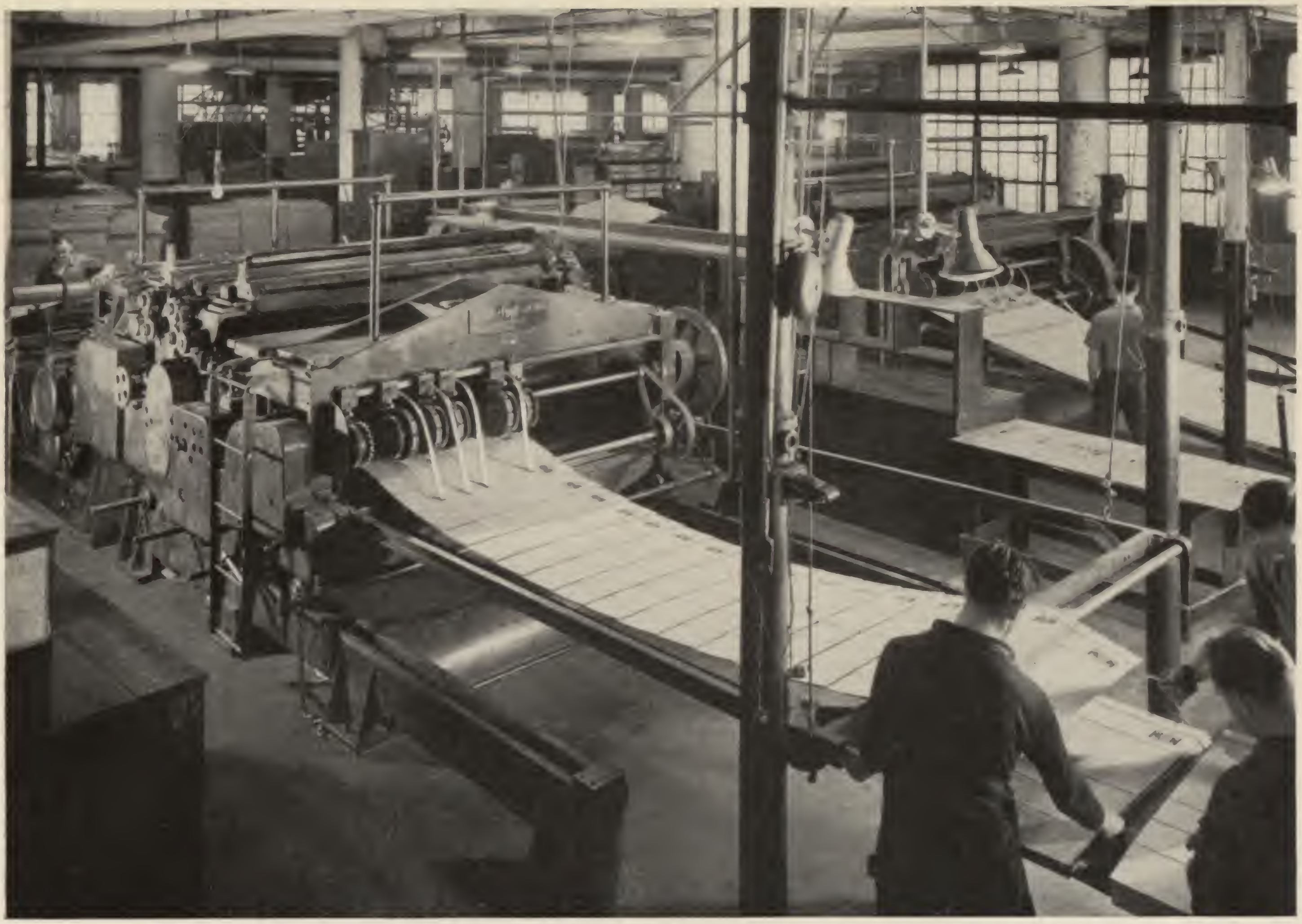
- CORRUGATED CONTAINERS
- SOLID FIBRE CONTAINERS
- FOLDING CARTONS
- FOOD PAILS
- SET-UP BOXES
- FIBRE CANS

USES

- Automobile Accessories
- Bakery Goods
- Beer
- Book Binders, Publishers, Printers
- Boots and Shoes
- Building Materials, Supplies and Fixtures
- Canned Foods
- Caps and Closures
- Caskets and Vaults
- Cereal Products
- China, Pottery and Glass Tableware
- Clothing
- Coffee, Tea, Cocoa and Spices
- Confectionery and Nuts
- Chemicals and Naval Stores
- Dairy Products
- Electrical Appliances and Supplies
- Explosives and Ammunition
- Fruits and Vegetables
- Furniture
- Glass
- Glass Bottles
- Hardware and Tools
- Household Utilities
- Linens and Domestics
- Liquor and Wine
- Luggage
- Machines and Machine Parts
- Matches
- Mattresses and Springs
- Meat Packing
- Musical Instruments
- Notions
- Paint and Varnish
- Paper Mill Products
- Petroleum Products
- Pharmaceuticals, Cosmetics and Druggist Preparations
- Photographic Apparatus and Supplies
- Radios and Accessories
- Refrigerators and Accessories
- Rubber Goods
- Sanitary Ware and Plumbers' Supplies
- Soaps and Cleansers
- Soft Drinks
- Spices
- Sporting Goods
- Stoves and Accessories
- Sugar (Beet and Cane)
- Textiles
- Tobacco Products
- Toys and Games
- Vegetable Oil Products
- Wholesale and Retail Establishments

FACTORIES	PRODUCTS	USES

AND FACTORIES OF CONTAINER CORPORATION OF AMERICA



Printer-slotter for the production of *solid fibre* cases in two colors. Like the machine (page 11) for corrugated cases, this also scores, trims and slots as it prints.

Roundly 4,000 men and women were employed in the mills, factories and administrative departments for the greater portion of the year. The total labor payroll was $3,981,257. A few minor wage increases were made in individual cases.

A large amount of laboratory research and testing work was continuously done throughout the year with a resulting further improvement of quality of product and cost of manufacture.

Again, a very substantial amount of money, namely $811,771, was expended for repair and maintenance of properties. All of this was absorbed in operating expense.

Capital improvements and additions, exclusive of the new Fernandina pulp mill, amounted to $635,728. Some of the major items were: new and improved machinery for the manufacture of pails; new printer-slotters for some of the corrugated box factories; one paper mill beater room was motorized; a new power plant was installed at one mill; further additions of machinery were installed in the Philadelphia folding box factory and several new tractor-trailers and waste paper baling presses were added. These expenditures resulted in the additional improvement of operating costs and improved quality and service to customers.

Your management believes that the various manufacturing plants are in excellent operating condition although further capital expenditures will no doubt always continue to be necessary in order to keep your Corporation's properties abreast of changing times and conditions.

The new pulp mill at Fernandina, Fla., was practically completed during the month of December and commercial operations began on December 18th. Since then, daily production has steadily increased until on January 31, 1938, the output had reached the originally estimated and anticipated rate of production for a twenty-four hour day. It is quite possible that the mill will soon exceed its originally estimated capacity. From the start, the quality of output has been satisfactory and your Corporation's northern paper mills are now currently consuming product of the Fernandina mill. On pages 20 and 21 are included several illustrations of the Fernandina project.

Simultaneously with the sale of the Cincinnati mill, a purchase agreement was entered into with one of the largest southern kraft paperboard manufacturers in accordance with the terms of which your Corporation will purchase a minimum of 35,000 tons of kraft paperboard per annum for a period of years at a price which shall be as low as the lowest price made by the producer to any of its customers. Your Corporation is, therefore, in position to supply its customers with containers made out of either northern jute or southern kraft board or any combination thereof as may be desired by the customer.

The corner joint of all solid fibre containers is made with flat stitching wire on these or similar heavy duty high speed stitching machines. Some corrugated cases also are finished in this manner.

NEW PULP MILL AT FERNANDINA, FLORIDA

DEDICATION AND OPERATION

Below. Ceremonies at the mill dedication. The white building in the center is the plant office. Part of the crowd of almost 6,000 people from Jacksonville, Fernandina and surrounding counties who attended the celebration. Governor Cone of Florida invited hundreds of special guests from other states.

Right. Wood is delivered to the mill by barge as well as by truck and rail. The locomotive crane stacks it into piles on the ground or deposits it in the conveyor for delivery to the barking drum. Right center, the pulp on its way to the compressor rollers which squeeze it into paper-like sheets. Finally, the pulp baled into 450 pound bundles ready for shipment.

SALES

The total net sales for the year amounted to $25,268,327 or an increase of 12 per cent compared with the previous year. Mainly due to sharp raw material increases, there were substantial price increases made throughout the first half of the year. During the second half of the year with lower raw material prices and fairly low volume prevailing, decreases in selling prices took place. However, at the close of the year, prices were, broadly speaking, somewhat higher than twelve months previous.

Sales personnel was increased so that at the close of the year there were more men actually selling your Company's products than ever before. Many new customers were added and a few were lost. New sales fields were developed and a very large number of new box designs were perfected and commercially introduced. The pictures on pages 24 and 25 are illustrative of some of these new and rather interesting developments.

AFFILIATED COMPANIES

The Sefton Fibre Can Company of St. Louis, Mo., made a net profit. This was not included in your Corporation's reported net profit for the year as no common dividends were declared while the Preferred stock, of which your Company holds none, was paid a 5 per cent dividend.

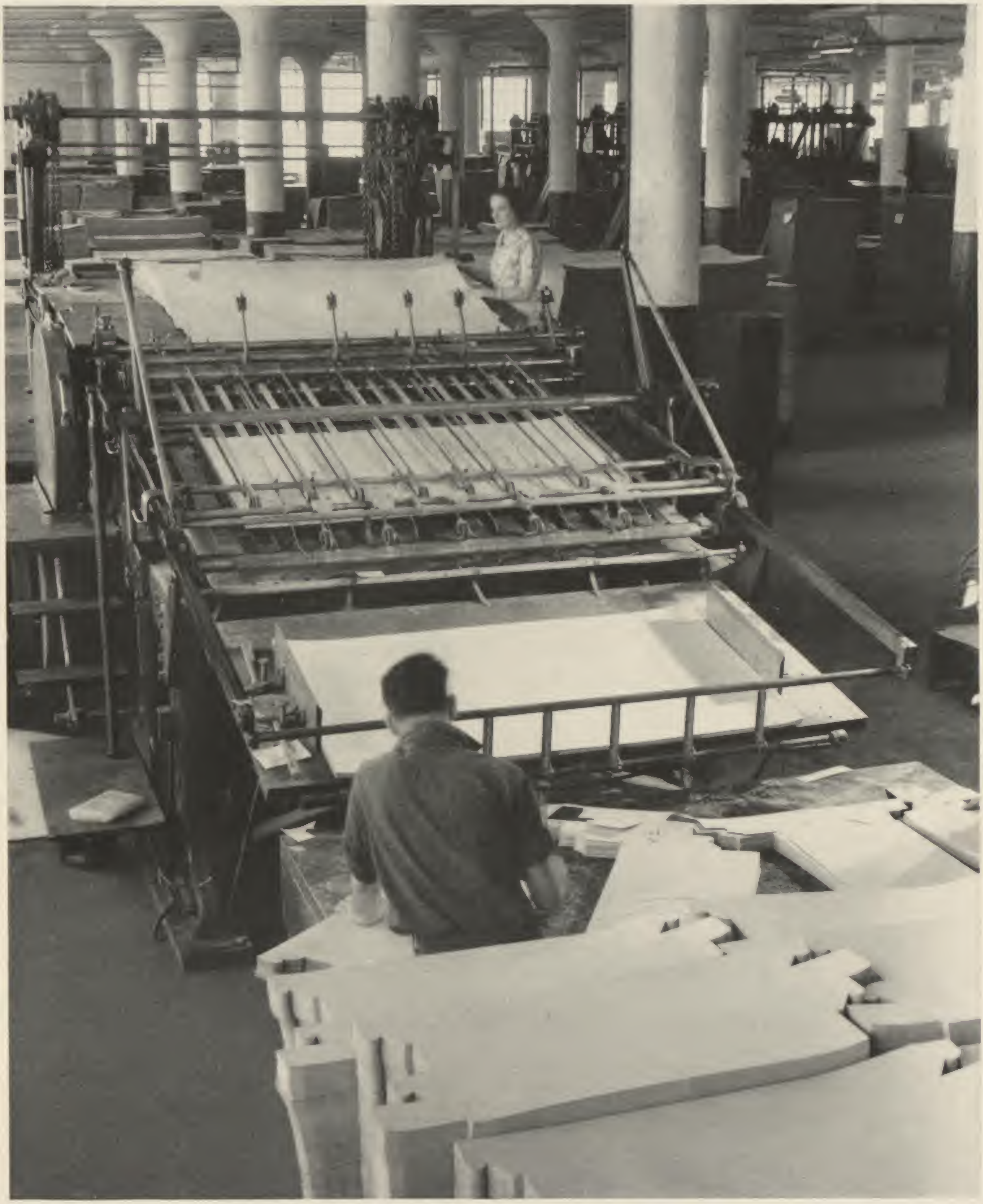
Toward the latter part of the year, your Company acquired all of the outstanding stock of The United Paper Box Mfg. Co. of Cleveland, Ohio, and about 92 per cent of the outstanding stock of The Falls Paper Box Company of Cuyahoga Falls, Ohio for a small consideration. These companies, manufacturing corrugated, folding and set-up boxes, were operating at a loss before their acquisition and under your Corporation's brief management during the last three months of the year, a small loss resulted which was not included in the reported net profit.

SUBSIDIARIES

Another satisfactory and profitable year was experienced by the wholly owned subsidiaries; namely, the Pioneer Paper Stock Company and the Chicago Mill Paper Stock Company. These two companies operate in Philadelphia, Pa., Kalamazoo, Mich., and Chicago, Ill., and their business consists of buying, collecting, cleaning, sorting and shipping all types of waste paper. In addition thereto, they do a substantial brokerage business and are also engaged in the production and sale of many paper specialties.

PAPERBOARD AND CONTAINER INDUSTRY CONDITIONS

For about two-thirds of 1937, the Paperboard and Container Industry enjoyed good volume and satisfactory price levels. During the last part of the year, however, with additional new capacity for the manufacture of paperboard coming into the market and the development of unsatisfactory business conditions, selling prices began to drift to lower levels. This trend has continued up to the present and there is no indication at the moment of any reversal of this trend. Volume in the first quarter of 1938 will be at a disappointingly low point and selling prices, generally speaking, are lower than satisfactory.



One of the cutting presses in the new Folding Carton Department at the Philadelphia plant.

Left. Three different types of rubber hose specially packaged to suit conditions of shipment and display.

Below. Out of the paper bag into the paperboard container, potatoes and apples have joined the grocer's display of packaged foods.

Right. Towels, sheets, blankets, curtains and a host of textiles known in the trade as "linens and domestics" have recently been successfully packaged. Frozen foods as well as fresh vegetables find public favor in attractive folding cartons.


GUEST OF HONOR
WHITE STAR
SHEETS
BOOTT MILLS
MERCERIZED
GUEST OF HONOR
PILLOW CASES
Thomaston
SERVICE
Percale Sheets
STEVENS


TWENTIETH CENTURY FROSTED FOODS
20th CENTURY


CELERY
Individual

GENERAL

Your Corporation's operations are suffering from the same low volume and low price conditions which are prevailing more or less throughout the Industry.

Your Company fortunately made the improvement of its physical equipment one of its first acts when profits again became available after 1932 so that it is now able to operate at a materially lower cost per ton of product produced despite increased wage rates and substantially higher taxes.

In the depression years extending from 1929 to 1933, your Company made several substantial downward revisions in the salaries of its key executives including officers and departmental managers and their assistants. When business and profits improved after 1933, your Board of Directors and management made only moderate salary increases and in recent years has characterized increases in salaries of its more important staff members as temporary. This enabled the management to readjust more quickly administrative expenses downward when business volume fell off sharply toward the end of 1937. To illustrate this point, the salaries of the thirty-nine officers and principal managing executives will be 24 per cent lower in the first quarter of 1938 than in the fourth quarter of 1937.

Largely as a result of the continued economies secured through improvement of physical properties and the downward revision of administrative expense, your Company's operations for the first quarter of 1938 will probably not show more than a moderate loss in spite of abnormally low volume. It is a rather startling fact that present volume is practically as low as during the average months of 1932.

Your management feels that there might be a slight improvement in volume during the second quarter and that the second half of the year might show a continuation of gradual improvement. Your Company's product is needed for the packaging of all types of consumers' goods and as excessive inventories are worked off, somewhat greater business activity with its collateral need of more containers may ensue.

ORGANIZATION

No major organization changes occurred during the year. The diligent efforts of all of the employees of the organization, together with the good business conditions obtaining throughout the better part of the last year, produced the best earnings record your Company has ever had and are deserving of due recognition and praise.

Submitted on behalf of the Board of Directors.

Respectfully,

Walter P. Paepcke

President

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Container Corporation of America:

We have made an examination of the consolidated balance sheet of CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES as at December 31, 1937 and of the statements of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year; we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1937 and the results of their operations for the year ended that date.

Arthur Andersen & Co.

Chicago, Illinois,
February 16, 1938.

CONTAINER CORPORATION OF AMERICA

CONSOLIDATED BALANCE SHEET

ASSETS

Current Assets:			
Cash in banks and on hand		$ 1,650,344.08	
Customers' accounts and notes receivable	$ 1,050,986.67		
Less—Reserve for doubtful accounts and allowances	95,633.26	955,353.41	
Note receivable (secured by property sold) due in 1938		125,000.00	
Sundry current receivables		52,762.64	
Inventories of raw materials, work in process, finished goods and supplies; quantities and condition determined by the companies; priced at the lower of cost or market		3,143,426.30	
Total current assets			$ 5,926,886.43
Other Receivables and Investments:			
Notes receivable (secured by property sold) maturing $125,000.00 semiannually from January 1, 1939 to July 1, 1943		$ 1,250,000.00	
Advances under contract		310,899.92	
Other receivables and investments		287,654.68	1,848,554.60
Plant and Equipment—stated at amounts recorded at dates of acquisition (including acquisitions for stock) based, in part, on appraisals, plus additions since at cost, less reserve for depreciation:			
Land		$ 3,192,263.94	
Buildings, including leasehold improvements	$ 7,329,888.51		
Machinery, equipment, etc	12,420,112.75		
	$19,750,001.26		
Less—Reserve for depreciation	7,763,148.73	11,986,852.53	
New pulp plant construction substantially completed during year (including plant site)		2,970,889.64	18,150,006.11
Deferred Charges to Future Operations:			
Unamortized debt discount and expense		$ 234,627.49	
Prepaid insurance		110,064.19	
Other prepaid expenses, etc		40,891.33	385,583.01
Goodwill and Patents—at nominal value			1.00
			$26,311,031.15

AND SUBSIDIARY COMPANIES

• DECEMBER 31, 1937

LIABILITIES

Current Liabilities:		
Accounts payable	$ 363,450.84	
Accrued interest, wages, taxes, etc	434,275.85	
Provisions for 1937 Federal income taxes (subject to final determination by Treasury Department)	528,000.00	
Sinking-fund payments due in 1938	115,000.00	
Total current liabilities		$ 1,440,726.69
Funded Debt—less sinking-fund payments due in 1938 shown above, and bonds held in treasury (see accompanying summary):		
First-mortgage sinking-fund 6% bonds, due June 15, 1946	$ 2,643,000.00	
Fifteen-year 5% debentures, due June 1, 1943	3,829,000.00	6,472,000.00
Reserve for Contingencies, of which $288,355.30 was provided by a charge to capital surplus		449,114.71
Contingent Liabilities:		
Federal income-tax returns from 1926 to date are in dispute. The amount of additional taxes and interest which may be payable is not exactly determinable but is estimated to be not in excess of $500,000.		
Capital Stock and Surplus:		
Capital stock—		
Authorized 1,000,000 shares of $20-par value Outstanding 781,253 shares	$15,625,060.00	
Capital surplus, arising from excess of cash received over par value of capital stock issued therefor	383,139.00	
Earned surplus (see accompanying summary)	1,940,990.75	17,949,189.75
		$26,311,031.15

CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1937

CONSOLIDATED PROFIT AND LOSS

CONSOLIDATED NET SALES (including brokerage sales of subsidiary)			$25,268,326.72
COST OF SALES (exclusive of depreciation)			19,201,296.54
Gross profit (exclusive of depreciation)			$ 6,067,030.18
PROVISION FOR DEPRECIATION			1,216,800.34
Gross profit from operations			$ 4,850,229.84
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (exclusive of bad debts)			2,027,710.63
Net profit from operations (exclusive of bad debts)			$ 2,822,519.21
DEDUCT:			
Provision for bad debts, less recoveries		$ 120,870.55	
Nonoperating rental expense, etc		96,305.34	
Flood loss at Cincinnati plant		60,392.85	
		$ 277,568.74	
Less—			
Purchase discounts, interest earned, etc.	$ 105,177.50		
Rental income	36,714.35		
Net profit on sales or retirements of capital assets	63,907.18	205,799.03	71,769.71
Net profit before interest and Federal income taxes			$ 2,750,749.50
INTEREST CHARGES, ETC.:			
Interest on first-mortgage bonds		$ 175,372.09	
Interest on debentures		199,115.21	
Amortization of bond discount and expense		39,227.56	
Other interest, etc		24,929.86	438,644.72
Net profit before Federal income taxes			$ 2,312,104.78
PROVISION FOR FEDERAL INCOME TAXES (Note 1):			
Normal and excess profits taxes		$ 389,100.00	
Surtax on undistributed profits		138,900.00	528,000.00
Net profit carried to earned surplus			$ 1,784,104.78

CONSOLIDATED EARNED SURPLUS

BALANCE AT DECEMBER 31, 1936	$ 1,017,761.77	
NET PROFIT FOR YEAR, as above	1,784,104.78	$ 2,801,866.55
DEDUCT—Cash dividends paid ($1.20 per share)		860,875.80
Balance at December 31, 1937 (Note 2)		$ 1,940,990.75

NOTES:

(1) The provision for 1937 Federal income taxes was made on a basis comparable to previous years; additional taxes may be claimed by the Treasury Department upon settlement of prior years' returns in dispute. In the opinion of counsel for the companies, sinking-fund payments on the first-mortgage bonds are deductible in the computation of surtax on undistributed profits; the foregoing provision has been determined on this basis.

(2) According to restrictions in the 5% debenture-trust agreement, surplus of subsidiaries as at January 1, 1928 amounting to $367,184.86 is not available for cash dividends.

STATEMENT OF FUNDED DEBT—DECEMBER 31, 1937

PARTICULARS	First-mortgage Sinking-Fund 6% Bonds Due June 15, 1946 (Note 1)	Fifteen-Year 5% Debentures Due June 1, 1943 (Note 2)	Total
AUTHORIZED	$10,000,000.00	$ 6,000,000.00	$16,000,000.00
Less—Unissued	5,000,000.00	—	5,000,000.00
	$ 5,000,000.00	$ 6,000,000.00	$11,000,000.00
DEDUCT:			
Redeemed	$ 2,107,000.00	$ 1,900,000.00	$ 4,007,000.00
In treasury—			
For 1938 sinking-fund requirements	135,000.00	200,000.00	335,000.00
In excess of 1938 sinking-fund requirements	—	71,000.00	71,000.00
	$ 2,242,000.00	$ 2,171,000.00	$ 4,413,000.00
BALANCE DECEMBER 31, 1937	$ 2,758,000.00	$ 3,829,000.00	$ 6,587,000.00
DEDUCT—Sinking-fund payment due in 1938 in excess of treasury bonds available; included in current liabilities	115,000.00	—	115,000.00
Balance payable subsequent to December 31, 1938	$ 2,643,000.00	$ 3,829,000.00	$ 6,472,000.00

NOTES:

(1) The trust indenture requires semiannual sinking-fund payments of $62,500.00 (or a deposit of an equivalent principal amount of bonds) and in addition, annually on May 1, an amount equivalent to 20% of the net profits for the preceding year; such additional amount not to exceed $125,000.00. Under these terms, a sinking-fund payment of $250,000.00 must be made in 1938.

(2) The trust indenture requires semiannual sinking-fund payments sufficient to redeem $100,000.00 principal amount of debentures or deposit of $100,000.00 principal amount thereof.

(3) The entire capital stock, except directors' shares, of Chicago Mill Paper Stock Company, a subsidiary, is pledged with the trustees under the first-mortgage bonds.

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